STRATEGIC SOURCING:
What is it & what's its impact on Services Acquisition?

DAU Hot Topic Forum

Presented by: Ken Brennan
Deputy Director, Services Acquisition
25 Jun 2014

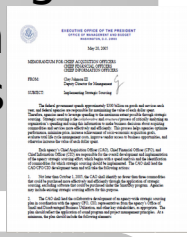
Objectives

- Define Strategic Sourcing
- The Multi-Step Strategic Sourcing Framework
- The Benefits of Strategic Sourcing
- DoD Taxonomy of Supplies & Services
- Services Acquisition & Your Role

Strategic Sourcing is Defined as:

Office of Federal Procurement and Policy

- A collaborative and structured process of analyzing an organization's spend and using the information to make business decision about acquiring commodities and services more efficiently and effectively



Purchasing Magazine

- A systematic process that begins with thorough analysis of spend across an enterprise and then organizes that spend focusing on selected suppliers for best results on cost, product development, quality and services

Commercial: United Parcel Service (UPS)

- The process of evaluating, selecting and aligning with suppliers or consortiums of suppliers to achieve operational improvements in support of an organization's strategic objectives

Regardless of the definition, one fact is constant: strategic sourcing is just good business practices within an enterprise.

Strategic Sourcing Definition

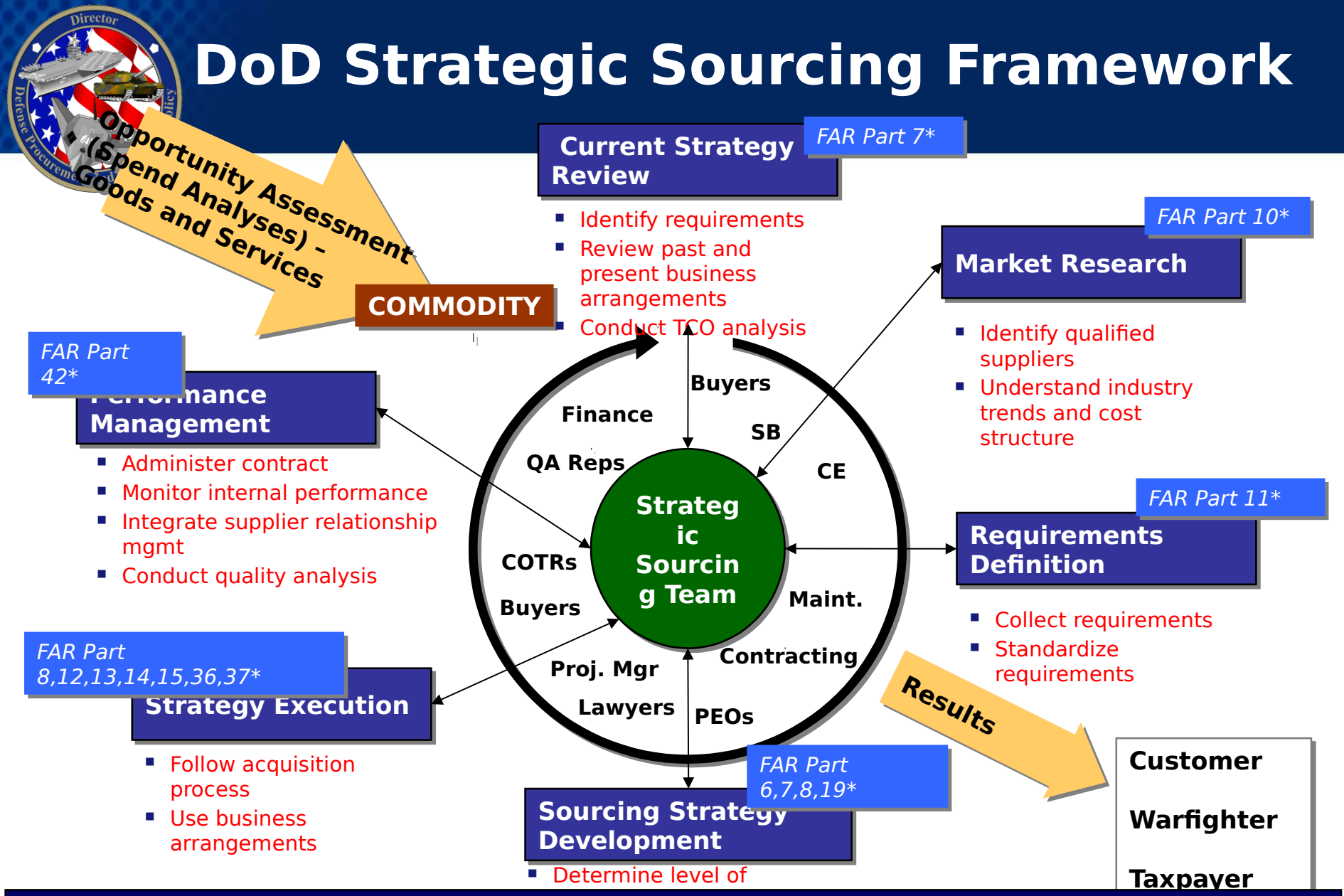
"A collaborative and structured process of analyzing an organization's spend and using the information to make business decisions about acquiring commodities and services more efficiently and effectively."

Collaborative	• Is cross-functional and engages stakeholders from multiple disciplines
Structured	• Is a systematic approach to sourcing • Is a repeatable process
Analytical	• Is data-driven and relies on facts • It relies on customer requirements and market intelligence • It considers all angles from needs to market conditions to socio-eco objectives
Optimization	• It helps organizations identify the optimal business decisions (small business, AbilityOne, policy, etc.)
Improved Delivery	• It improves the quality and value of acquired commodities • It contributes to more efficient use of purchasing dollars…."**DO MORE WITHOUT MORE"**

What Strategic Sourcing is Not

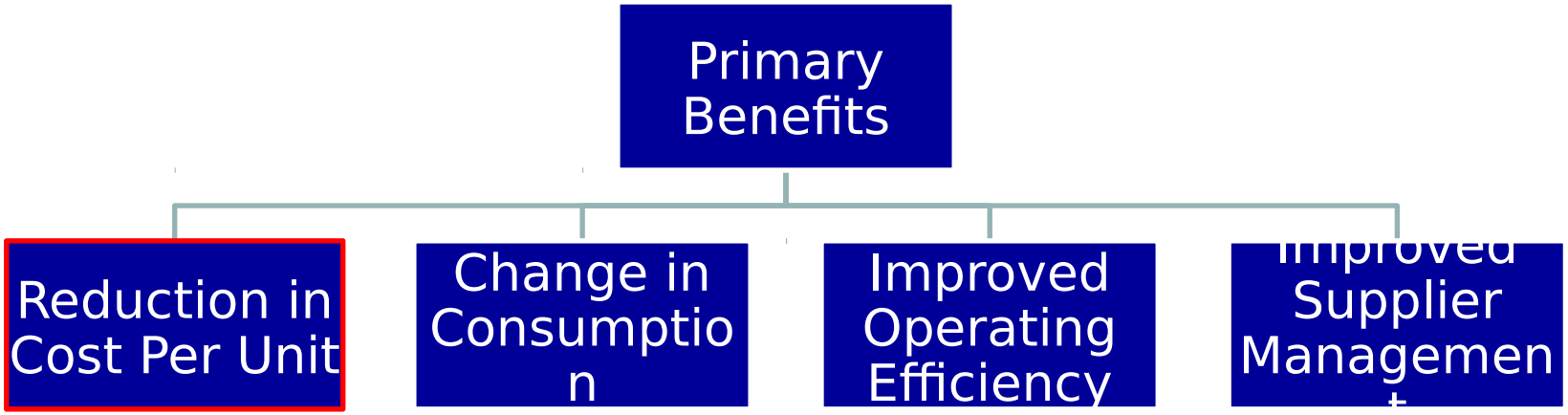
- **NOT a “one size fits all” solution**
- **NOT the same as “leveraged buying”**
- **NOT solely relevant in situations with many buyers and contracts**
- **NOT solely applied at the “enterprise level”**
- **NOT always about “what” is bought**

DoD Strategic Sourcing Framework



We Were Doing Strategic Sourcing Before It Was All The Rage

Strategic Sourcing Benefits



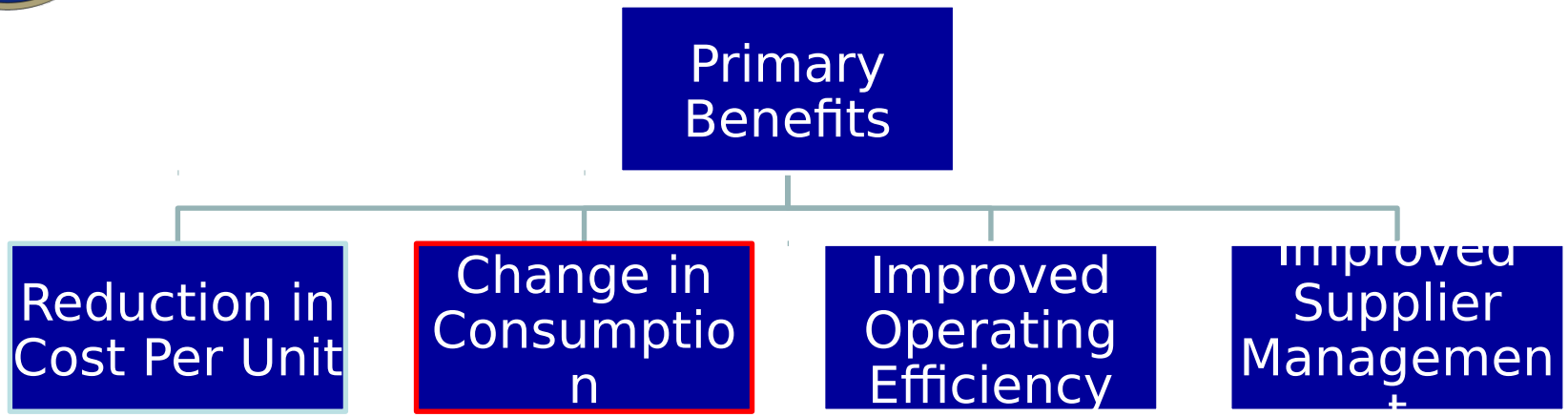
Cost per unit savings may come in the form of:

(1) Pricing Improvements
- Lower unit price
- Volume rebates
- Payment term discounts

(2) Supply Chain Savings
- Reduce cost of capital
- Reduce warehousing cost
- Reduce shipping cost

(3) Reduced Lifecycle Cost
- Reduce maintenance costs
- Reduce operating cost
- Reduce disposition cost

Strategic Sourcing Benefits (cont.)

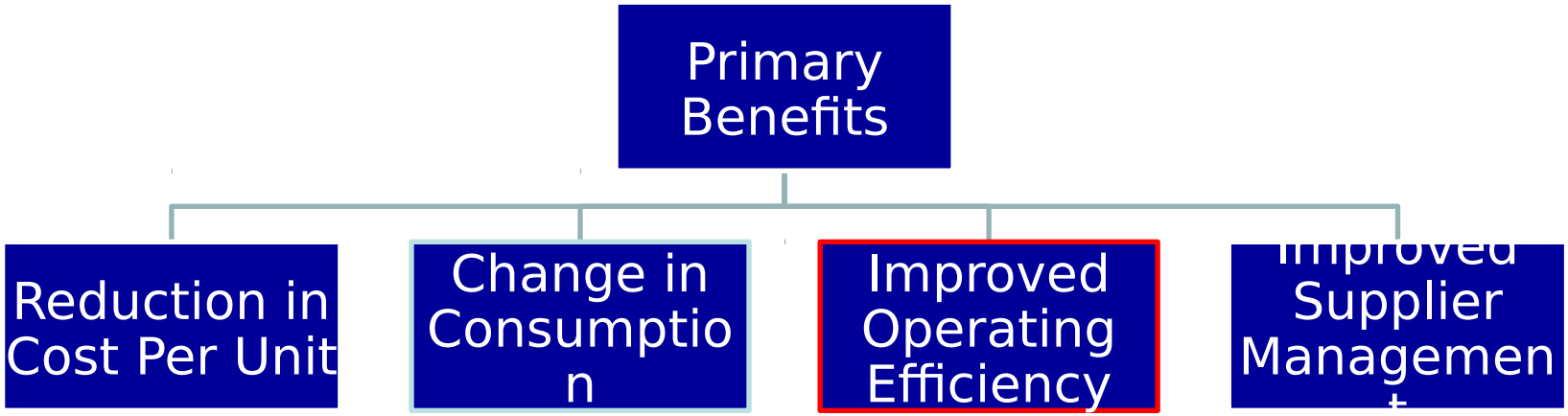


Value from changes in consumption may come in the form of:

(1) Demand management
- Curbed demand
- Reduced consumption
- Substitution of alternatives
- Modified product/service mix

(2) Specification Review
- No “gold plating”
- Simplified specifications
- Substitution of alternative

Strategic Sourcing Benefits (cont.)



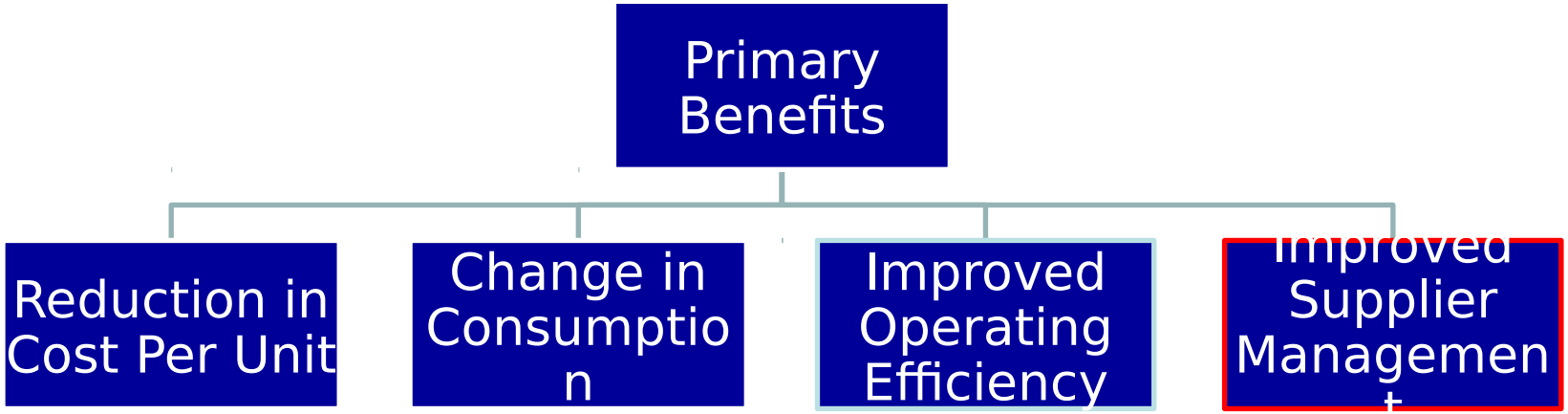
Value from improved operating efficiency may come in the form of:

(1) Reduced Procurement Operating Expenses
- PO processing
- Standardized procurement processes

(2) Reduced Non-Procurement Operating Expenses
- Faster, better program delivery
- Improved business processes

(3) Performance Monitoring
- Structure metrics and periodic review of performance

Strategic Sourcing Benefits (cont.)



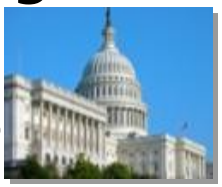
Value from improved supplier management may come in the form of:

(1) Socio-Economic Goal Fulfillment
- Structured analysis of small business and AbilityOne opportunities
- Ongoing monitoring

(2) Optimized Supplier Relationships
- Improved joint understanding of buyer/supplier needs
- Increased efficiencies across supply chain

Services Significance

- **Services acquisitions are more than half of all DOD contracting dollars spent in support of the Warfighter.**



- **Congressional Interest, GAO Reports, Fraud Rep**
- **Senior Leadership Emphasis: Improving Tradecraft in Acquisition of Services is one of the seven USD(AT&L) Better Buying Power (BBP) 2.0 focus areas.**
  - **Potential for cost reduction and improved efficiencies.**
- **Services touches everyone – military, civilian, E1 – 010, GS-3 to SES**
  - **Home station or deployed, Services contractors support the mission**

BETTER BUYING POWER 2.0, http://bbp.dau.mil

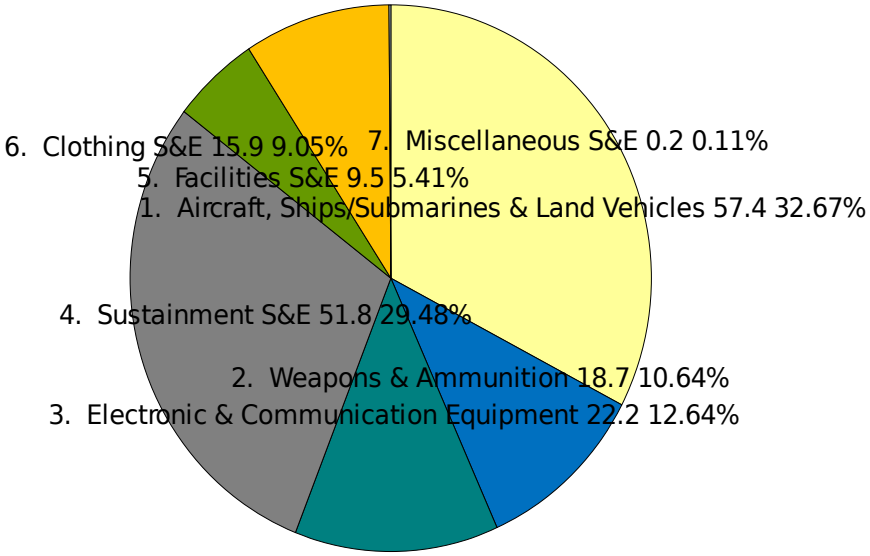
FY13 DoD Spend (Taxonomy)

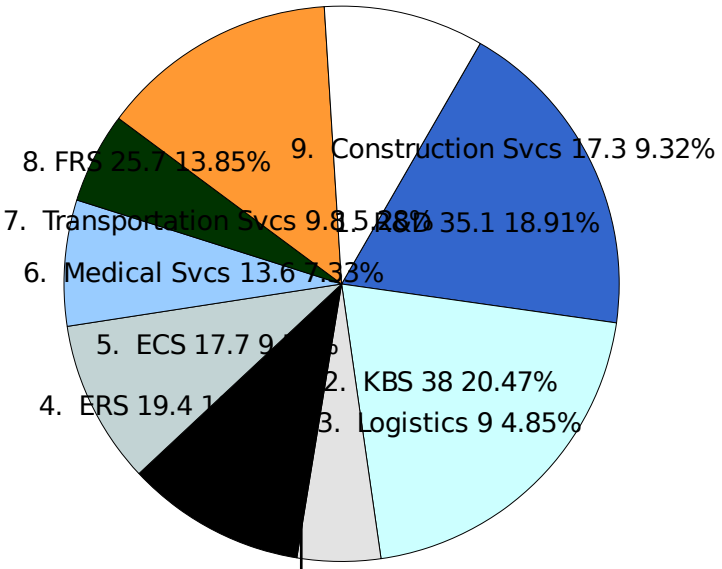
Supplies & Equipment

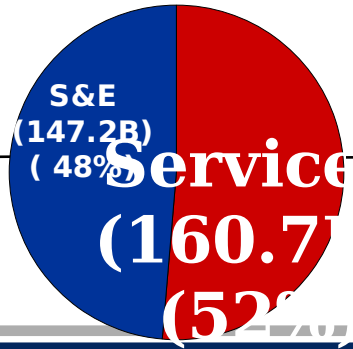
FY 2013 Total Spend

$307.5 B

Services


6. Clothing S&E 15.9 9.05%
7. Miscellaneous S&E 0.2 0.11%
5. Facilities S&E 9.5 5.41%
1. Aircraft, Ships/Submarines & Land Vehicles 57.4 32.67%
4. Sustainment S&E 51.8 29.48%
2. Weapons & Ammunition 18.7 10.64%
3. Electronic & Communication Equipment 22.2 12.64%


8. FRS 25.7 13.85%
9. Construction Svcs 17.3 9.32%
7. Transportation Svcs 9.8 5.28%
R&D 35.1 18.91%
6. Medical Svcs 13.6 7.33%
5. ECS 17.7 9
2. KBS 38 20.47%
4. ERS 19.4 1
3. Logistics 9 4.85%



Note: Numbers may not add due to rounding

Services Portfolio Groups & Portfolios

Research and Development

- Systems Development
- Operational Systems Development
- Technology Base
- Commercialization

Electronic & Communication Services

- IT Services
- Telecom Services
- Equipment Maintenance
- Equipment Leases

Facility Related Services

- Architect/Engineering Services
- Operation of Government-Owned Facilities
- Machinery & Equipment Maintenance
- Building & Plant Maintenance
- Natural Resources Management
- Utilities
- Housekeeping & Social Services

Knowledge Based Services

- Engineering and Technical Services
- Program Management Services
- Management Support Services
- Administrative & Other Services
- Professional Services
- Education & Training

Equipment Related Services

- Maintenance, Repair and Overhaul
- Equipment Modification
- Installation of Equipment
- Quality Control
- Technical Representative Services
- Purchases & Leases
- Salvage Services

Construction Services

- Structures & Facilities
- Conservation & Development Facilities
- Restoration Activities

Logistics Management Services

- Logistics Civil Augmentation Program
- Logistics Support Services

Medical Services

- General Medical Services
- Dentistry Services
- Specialty Medical Services

Transportation Services

- Transportation of Things
- Transportation of People
- Other Travel & Relocation Services

Product and Service Codes Organized into 9 Services Portfolio Groups and 40 Services Portfolios …

S&E Portfolio Groups & Portfolios

Aircraft, Ships/Submarines & Land Vehicles

- Aircraft
- Land Vehicles
- Ships & Submarines
- Space Vehicles

Weapons & Ammunition

- Ammunition & Explosives
- Fire Control
- Guided Missiles
- Guns
- Nuclear Ordnance
- Weapons

Electronic & Communication Equipment

- ADP Equipment
- Communication Equipment
- Detection & Coherent Radiation Equipment
- Electrical & Electronic Equipment
- Night Vision Equipment

Sustainment S&E

- Drones
- Engines, Components & Spt Eq
- Fuels & Lubricants
- Materials
- Supply Parts
- Support Ships & Small Craft
- Training Aids & Devices

Facilities S&E

- Furnishings & Office S&E
- Machinery & Tools
- Physical Plant & Land

Clothing, Textiles, and Subsistence S&E

- Clothing, Textiles & Equipage
- Medical & Dental S&E
- Subsistence

Miscellaneous S&E

- Non-Food Items for Resale
- S&E Not Classified Elsewhere

… and 7 S&E Portfolio Groups and 30 S&E Portfolios

Functional Domain Expert

USD(AT&L) or Designee

Executive Secretariat DPAP

Transportation Services FDE Mr. Paul D. Peters	Logistics Management Services FDE Mr. Paul D. Peters	Equipment Related Services FDE Mr. Paul D. Peters	Electronics & Comm. Services FDE Mr. Dave DeVries	Medical Services FDE Dr. Karen S. Guice	Facilities Related Services FDE Mr. John Conger	Knowledge Based Services FDEs
Component Level Leads	Component Level Leads	Component Level Leads	Component Level Leads	Component Level Leads	Component Level Leads	Component Level Leads
Statistics Actions: 10.8M Dollars: $9.8B	Statistics Actions: 4.6K Dollars: $9B	Statistics Actions: 31.1K Dollars: $19.4B	Statistics Actions: 81.6K Dollars: $17.7B	Statistics Actions: 7.9K Dollars: $13.6B	Statistics Actions:125.7K Dollars: $25.7B	Statistics Actions: 65.7K Dollars: $38B

Portfolio FDEs

Component-Level Leads

- Army
- Air Force
- Navy
- Defense Logistics Agency
- Missile Defense Agency
- Defense Health Agency

DPAP & SSM Cross Cutting Staff Support

- Engineering & Technical Services Mr. Stephen Welby
- Program Management Services Ms. Darlene Costello
- Management Support Services Mr. Kevin Scheid
- Administrative & Other Services Mr. Ken Brennan
- Professional Services Mr. Ken Brennan
- Education & Training Mr. Frank DiGiovanni

Functional Domain Expert Portfolio:
Roles & Responsibilities

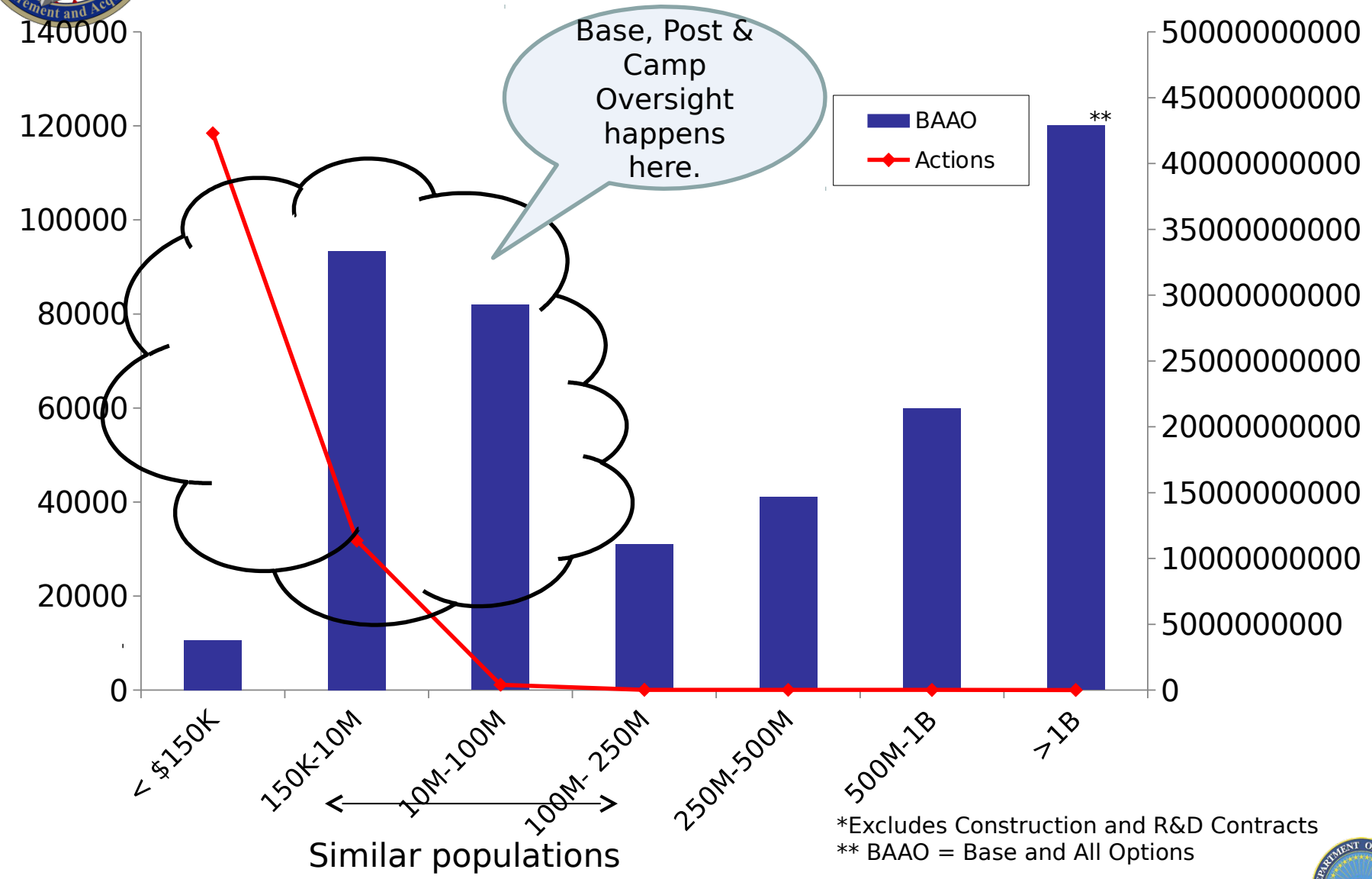
Provide strategic leadership to improve planning & collaboration to achieve greater efficiency and reduce costs

- **Plan**
  - **Reduce redundancy in business arrangements**
  - **Identify opportunities for strategic sourcing**
  - **Leverage small business capabilities**
  - **Inform acquisition planning & execution**

- **Collaborate**
  - **Share best practices, lessons learned, useful metrics & data**
  - **Leverage Requirement Review Board process to improve requirements definition and validation process**
  - **Report portfolio accomplishments**

DPAP, SSMs & Component Leads working to improve portfolio management

FY12 Distribution of Contracts *

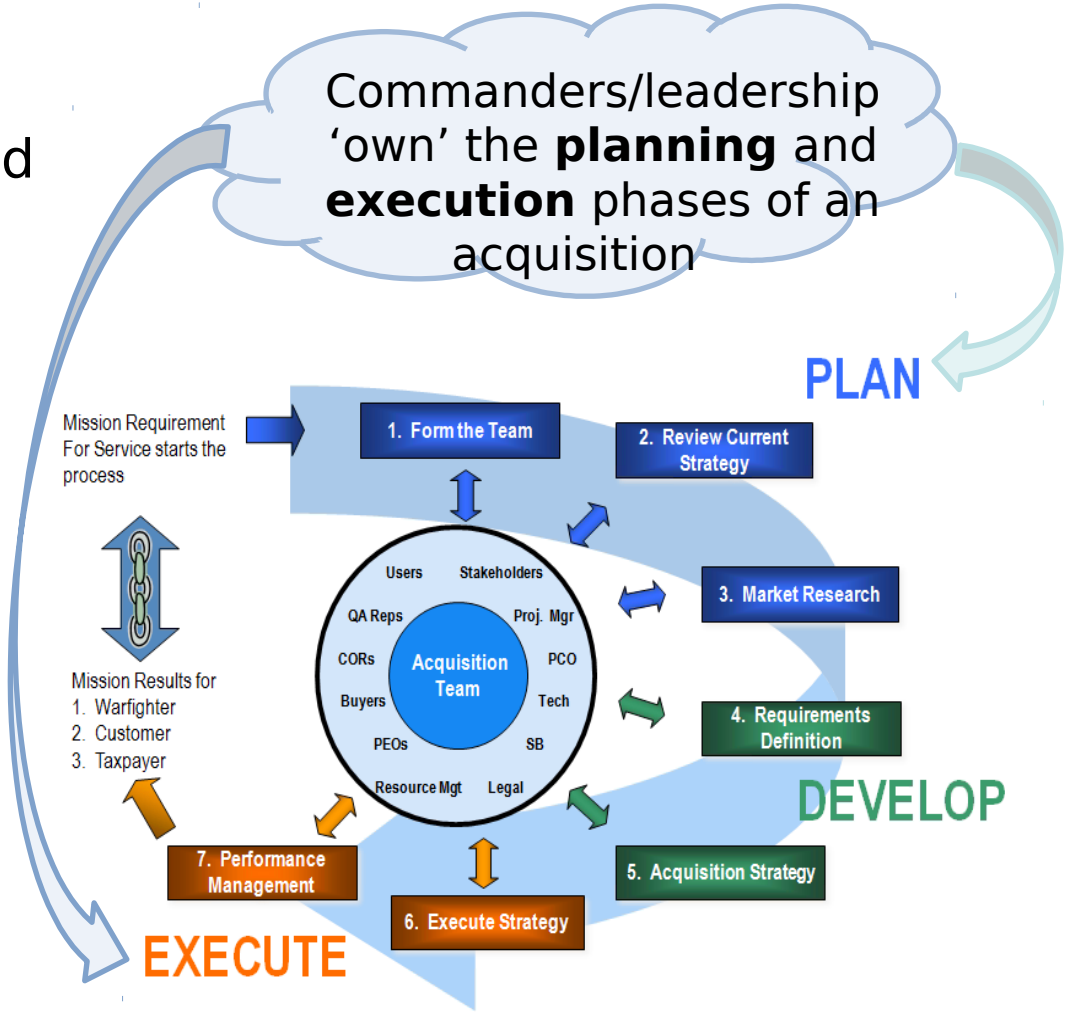


*Excludes Construction and R&D Contracts
** BAAO = Base and All Options

Engaged Leadership is Critical

- Today's & the Next generation of leaders need to understand & embrace significance of "owning" their requirements

- Be prepared to support future warfighter needs –
  - Operational
  - Contract Support



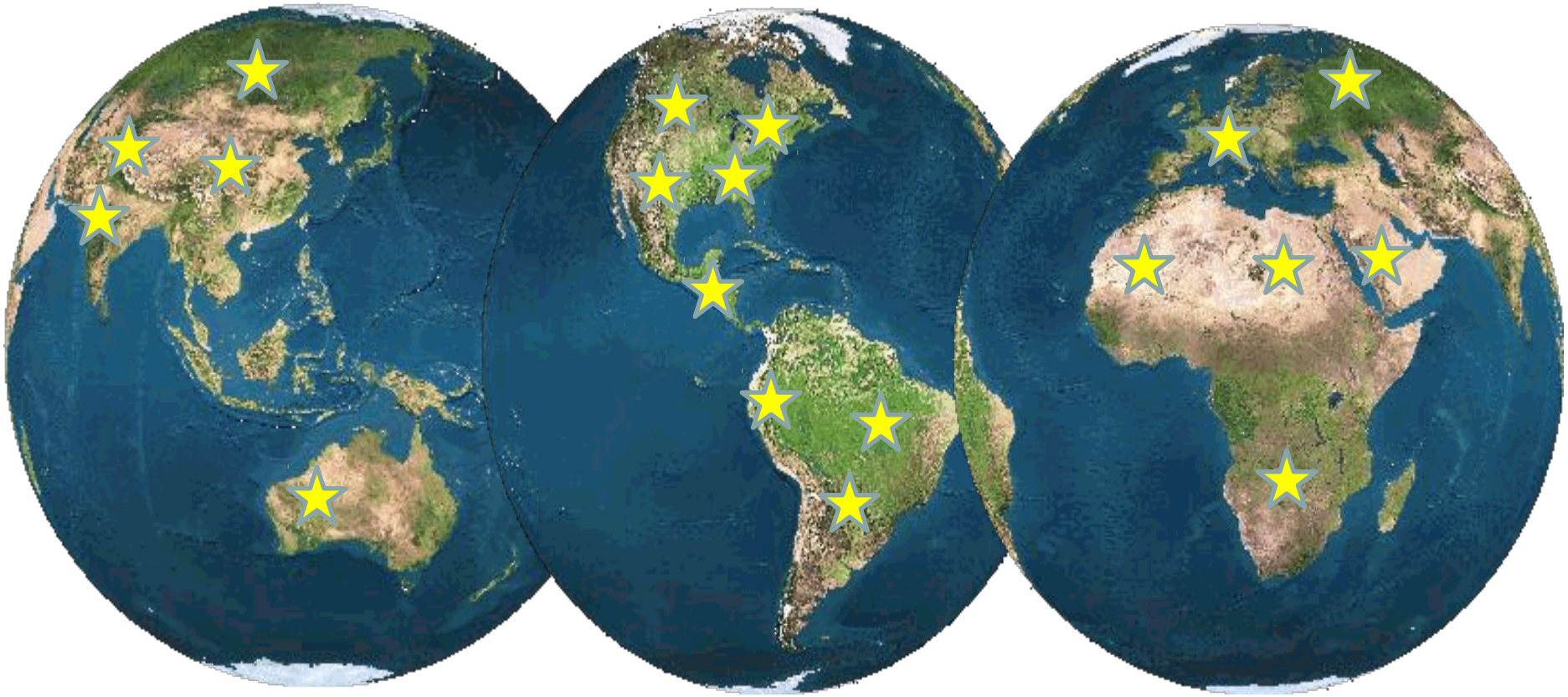
Leadership Roles & Responsibilities

- **Drive strategic portfolio management**
  - **Active Management**
    - **Planning, Management and Execution of services**
    - **Improving requirements definition & validation**
  - **Requirements Management**
    - **Conduct Requirements Review Boards to validate & approve requirements**
    - **Develop Services Acquisition Forecasts**
    - **Develop/Employ Tripwires to measure post-award performance**
  - **Reporting and Metrics**
    - **Report cost savings, performance/schedule improvements, best practices, lessons learned, and Service Requirements Review Board statistics**
    - **Share metrics used to manage at service/component level**

All designed to Improve Services Tradecraft

Services Contracts are Everywhere

Wherever we have military, we have services contracts



Our military need the tools to properly interface with service providers and execute services contracts

Services Acquisition & Strategic Sourcing Contacts

Defense Procurement and Acquisition Policy (DPAP) – Services Acquisition Staff – Pentagon 3C958

Mr. Kenneth Brennan, Deputy Director, Services Acquisition, 3C958.
(703) 614-9757, kenneth.m.brennan6.civ@mail.mil

Ms. Emily Clarke, Procurement Analyst, Services Acquisition, 3C958
(703) 614-9731, emily.h.clarke.civ@mail.mil

Col Jim DeLong, Procurement Analyst, Services Acquisition, 3C958
(703) 614-7935, james.m.delong4.mil@mail.mil

Mr. Scott Calisti, Contractor Support, Services Acquisition, 3C958
(571) 256-7011, scott.r.callisti.ctr@mail.mil